

## **Policy 2.3.2      Housing Incentive Fund**

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### **POLICY PURPOSE:**

The purpose of the Housing Incentive Fund is to implement specific housing policies of the Housing and Community Revitalization Sub-element of the City's General Plan by providing a funding source to defray construction costs and make possible the rehabilitation and new development of housing affordable to low income persons.

### **POLICY STATEMENT:**

It is the policy of the City of Sunnyvale to utilize monies received as Housing Mitigation Fees as a Housing Incentive Fund. The Housing Incentive Fund shall be available to all developers proposing to construct, preserve affordability or rehabilitate rental housing within the City of Sunnyvale which is primarily occupied by persons earning 80% or less of the county median income.

#### **Types of Projects**

New Construction and Preservation Projects. For projects that have 100% of the units affordable to households earning 80% of the median income or less, the incentive fund can contribute 100% of the cost of items listed below.

1. Land writedown
2. Public utilities
3. Undergrounding of electrical lines
4. Required street improvements
5. Water and sewer facilities
6. City fees or assessments which pay the project's share of the items listed in items 1-5 above.
7. Fees associated with processing of applications for mortgage insurance and insured loan commitments under programs including those administered by HUD, FMHA, FNMA and GNMA.
8. Other redevelopment and construction costs.

Rental Rehabilitation Projects. For projects that have 51% to 100% of the units affordable to persons earning 80% or less of the median income, the incentive fund can contribute 100% of the cost for items eligible to be funded under the City's Rental Rehabilitation Program. All loans require specific City Council approval.

#### **Underwriting Criteria**

Sunnyvale provides loans (not grants) to assist with the financing of real estate projects. No single project will eliminate the affordable housing crisis in Sunnyvale; therefore, all funding to assist in the acquisition, construction or rehabilitation of real property requires that funds are secured on the property and have a fixed repayment over time. This approach allows funds to recycle for use on future projects.

- Applications

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An applicant for funding will submit (at minimum), a market study, an environmental review, an appraisal, evidence of site control, a detailed sources and uses statement, a projected timeline for construction and occupancy, a proforma statement through the proposed loan term, an experience statement of the proposed development/management team, and the level of commitment by other funding sources.

- Project Priority

Priority will be given to projects that address affordability issues by offering below market rents to a predetermined high need group, as defined in the Consolidated Plan and to projects that provide long-term affordability restrictions and are located in identified action areas in the City. Projects that have obtained funding commitment from other sources, are “ready to go” and have leveraged a high percentage of other funds to City funds will receive the highest preference.

- Loan Amounts and Terms:

The loan to value ratio for all liens shall not exceed 100% of the appraised value. The debt coverage ratio shall be a minimum of 1.1. All deferred interest shall accrue. Loan terms shall not exceed thirty years, unless the primary lender requires a loan term consistent with the primary loan. The City loan is due in full upon refinance of the primary loan. All loans will have a fixed term and repayment schedule (above the line); residual receipt payments will not be accepted.

City loans should be considered “gap financing”; therefore, the loan request for new construction/preservation project should reflect a cost per unit of \$15,000 to \$30,000, and rental rehabilitation projects should be limited in costs to \$20,000 per unit. Projects that are targeting affordability to benefit very low or extremely low-income households may request an increased cost per unit. City support of rental units will be limited to units with rental rates that are at least 20% below existing median rental rates in Sunnyvale.

### Approved Concept:

A developer wishing to use the fund should contact the Housing Officer, who will process the proposal through the necessary citizen review for new development or through the Rental Rehabilitation Program procedures. In the case of new development, the City Council will make the ultimate decision to commit funds to a particular project.

If a developer of new construction is applying for rental or loan assistance through a state or federal program, that developer will be required to submit the assistance application with the total full costs. The City will provide a letter stating the amount of subsidy available if needed by the developer. The City will release the funds only when it is demonstrated that the funds are necessary to make the project economically viable within the rent and mortgage limitations set by the approving agency.

### Securities:

The City will require the developer to place a deed restriction on the property which will assure that the developer carries out the intended plan over time. The restriction will provide remedies if the developer/owner fails to operate the development in the approved manner.

## COUNCIL POLICY MANUAL

(Adopted: RTC 87-492 (9/15/1987))

Lead Department: Community Development Department